



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834

Rob Sand
Auditor of State

NEWS RELEASE

Contact: Brian Brustkern
515/281-5834

FOR RELEASE

November 13, 2024

Auditor of State Rob Sand today released a report on the Iowa Department of Transportation for the year ended June 30, 2023.

The Department is responsible for planning, developing, regulating, and improving the State of Iowa's transportation system to provide and preserve adequate, safe, and efficient transportation services.

AUDIT FINDINGS:

Sand reported four findings pertaining to the Department. The findings are on pages 3 through 7 of this report. Sand recommended the Department implement procedures to improve controls over inventory, financial reporting, reporting of construction contracts, reporting of Subscription-Based Information Technology Arrangements (SBITA) and approval of capital asset deletions. The Department's responses to the recommendations are included in the report.

Three of the findings discussed above are repeated from the prior year. Management of the Iowa Department of Transportation has a fiduciary responsibility to provide oversight of the Department's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" management exercises in its fiduciary capacity.

A copy of the report is available for review on the Auditor of State's website at [Audit Report – Auditor of State](#).

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF TRANSPORTATION**

JUNE 30, 2023

Iowa Department of Transportation



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STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834

Rob Sand
Auditor of State

November 12, 2024

Iowa Department of Transportation
Ames, Iowa

Dear Members of the Iowa Department of Transportation:

I am pleased to submit to you the Report of Recommendations for the Iowa Department of Transportation for the year ended June 30, 2023. This report includes findings pertaining to the Department's internal control and compliance with statutory requirements and other matters which resulted from the fiscal year 2023 audit.

I appreciate the cooperation and courtesy extended by the officials and employees of the Iowa Department of Transportation throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

Iowa Department of Transportation



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Rob Sand
Auditor of State

November 12, 2024

To Scott Marler, Director of the Iowa Department of Transportation:

The Iowa Department of Transportation is a part of the State of Iowa and, as such, has been included in our audit of the State's Annual Comprehensive Financial Report (ACFR) and the State's Single Audit Report for the year ended June 30, 2023.

In conducting our audits, we became aware of certain aspects concerning the Department's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations, which include findings pertaining to the Department's internal control and statutory compliance and other matters. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report. While we have expressed our conclusions on the Department's responses, we did not audit the Iowa Department of Transportation's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Department of Transportation, citizens of the State of Iowa and other parties to whom the Iowa Department of Transportation may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audits. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the Department are listed on page 8 and they are available to discuss these matters with you.

A handwritten signature in black ink, appearing to read "Brian R. Brustkern".

Brian R. Brustkern, CPA
Deputy Auditor of State

cc: Honorable Kim Reynolds, Governor
Kraig Paulsen, Director, Department of Management
Tim McDermott, Director, Legislative Services Agency

June 30, 2023

Findings Reported in the State's Single Audit Report:

No matters were reported.

Findings Reported in the State's Report on Internal Control:

(1) Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the State's financial statements.

Departments record receipts and disbursements in the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded in the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS-SAE) in a GAAP package. Departments submit their GAAP packages to DAS-SAE by the first week of September each year.

(a) Condition – The following conditions were noted:

- (1) The Department recorded a lease in the GAAP package that had a start date in the subsequent year. This resulted in an overstatement of right-to-use leased assets and lease liability of \$1,041,280.
- (2) The Department understated unearned revenues by \$4,681,082.
- (3) The Department misclassified \$21,401,666 as miscellaneous revenue which should have been classified as receipts from other entities.
- (4) The Department misstated amounts reported on the GAAP package for Subscription-Based Information Technology Arrangements (SBITA). SBITA assets and accumulated amortization were understated by \$13,335,554 and \$12,625,166, respectively. In addition, SBITA assets of \$1,948,543 and current year amortization expense of \$1,110,722 were incorrectly reported in the General Fund, instead of the Internal Service Fund.

These amounts were properly adjusted for reporting purposes.

Cause – Although policies and procedures are in place to review GAAP package information and system activity, the review did not identify the misstatements.

Effect – The amounts reported were misstated and required adjustments to the financial statements.

Recommendation – The Department should implement effective policies and procedures to ensure that all financial reporting is accurate.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2023

Response – The Department believes we have the appropriate policies and procedures in place. The above were all the result of human error or in the instance of the SBITA and the unearned revenue, these were related to new GASB standards or grant types that the Department had not previously worked with. The Department will continue to educate the appropriate staff to ensure that the existing policies and procedures are effective in identifying the appropriate accounting.

Conclusion – Response accepted.

- (b) Condition – The Department is required to submit financial information related to construction contracts entered into as of June 30, 2023. For certain contracts, the contractual commitment reported was as of August 30, 2023, rather than June 30, 2023.

Cause – Policies and procedures do not exist to ensure this is caught in the financial reporting process.

Effect – The Department employees did not detect the errors in the normal course of performing their assigned functions.

Recommendation – The Department should implement procedures to ensure construction obligation amounts are being accurately reported.

Response – The Department agrees with the comment, the staff member who created this report is no longer with the Department and the accounting team members responsible for this moving forward are aware of the misstatement and will be pulling the correct data moving forward.

Conclusion – Response accepted.

June 30, 2023

Other Findings Related to Internal Control:

(2) Inventory

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all inventory by maintaining appropriate accounting records along with independent reviews. Inventory is not recorded in the Integrated Information for Iowa (I/3) system; however, it is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS-SAE) in a GAAP package. The GAAP package is to be submitted to DAS-SAE by the first week of September each year.

Condition – We noted the following conditions:

- Segregation of Duties – Central Warehouse/Sign Shop inventory – Two employees have access to all areas of inventory system.
- There was an understatement of \$8,971 in the central office inventory compared to what was observed by the auditor.

Cause – Policies and procedures have not been implemented to ensure that employees only have access to the inventory system functions that are necessary for their normal job duties. Also, policies and procedures have not been implemented to ensure that inventory is being reported accurately.

Effect – Inadequate segregation of duties could adversely affect the Department’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions. Also, a lack of procedures to ensure accurate financial reporting could result in misstatements.

Recommendation – The Department should review their operating procedures to obtain the maximum internal control possible under the circumstances, including an independent review of each inventory listing performed periodically to ensure the completeness and accuracy of the listings.

Response – The Department’s prior year response indicated the department was working on a new inventory system to replace the existing system which held the segregation of duties issues. The new inventory system went live in July 2024 and allows for improved functionality for both segregation of duties and audit trail.

The Department performs regular inventory counts to adjust for inventory on hand. We believe the proper controls are in place to review inventory balance. Additionally, the new system will allow the Department additional capabilities to further improve inventory related internal controls including segregation of duties.

Conclusion – Response accepted.

June 30, 2023

(3) Subscription-Based Information Technology Arrangements (SBITA)

Criteria – The Department is required to create and submit an annual GAAP Package each year to the Iowa Department of Administrative Services, GAAP team, to assist in the creation of the State’s Annual Comprehensive Financial Report (ACFR).

Condition – We noted the following conditions:

- Right-to-use SBITA assets were overstated by \$666,456.
- Right-to-use SBITA liabilities were overstated by \$615,502.
- Right-to-use SBITA assets amortization was understated by \$436,350.

Cause – Although policies and procedures are in place to review GAAP package information and system activity, the review did not identify the misstatements.

Effect – The amounts reported in the financial statements were misstated.

Recommendation – The Department should implement procedures to ensure subscription-based information technology arrangements are accurately reported.

Response – The Department had significant conversations with the Department of Administrative Services to improve our understanding and reporting of SBITA upon the identification of variances from the AOS findings. The department has taken steps to effectively and correctly capture and report these figures moving forward.

Conclusion – Response accepted.

(4) Capital Asset Deletions

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all capital assets, including asset deletions, by maintaining appropriate accounting records and ensuring the records are reviewed by an independent person.

Condition – The Department does not maintain documentation approving the deletion of capital assets.

Cause – Policies and procedures are not in place to ensure that documentation of approval for the deletion of capital assets is being maintained.

Effect – A lack of policies and procedures requiring documentation be maintained for capital asset deletion approvals could result in assets being deleted that should not be deleted.

Recommendation – The Department should develop procedures to document the approval of the deletion of capital assets.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2023

Response – The Department has migrated A/B capital equipment to a new system as the system of record for the capital assets being discussed. The new system retains an audit trail which allows for review of any changes to the capital assets including sale/junking.

Conclusion – Response accepted.

Findings Related to Statutory Requirements and Other Matters:

No matters were noted.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2023

Staff:

Questions or requests for further assistance should be directed to:

Brian R. Brustkern, CPA, Deputy
Tiffany M. Ainger, CPA, Manager
Brett S. Gillen, CPA, Senior II Auditor

Other individuals who participated in the audits include:

Tristan J. Swiggum, Senior Auditor
Allison L. Carlon, Staff Auditor
Nathan A. DeWit, Staff Auditor
Enoch D.N. Duval, Staff Auditor
Savannah R. Fitz, Staff Auditor
Hunter W. Penton, Staff Auditor
Brandon A. Krug, Assistant Auditor
Benjamin I. Manchester, Assistant Auditor
Stella F. Tsai, Assistant Auditor
Amila Tursunovic, Assistant Auditor
Claire E. Denning, Audit Intern